

Cash Costs Up 6 Percent

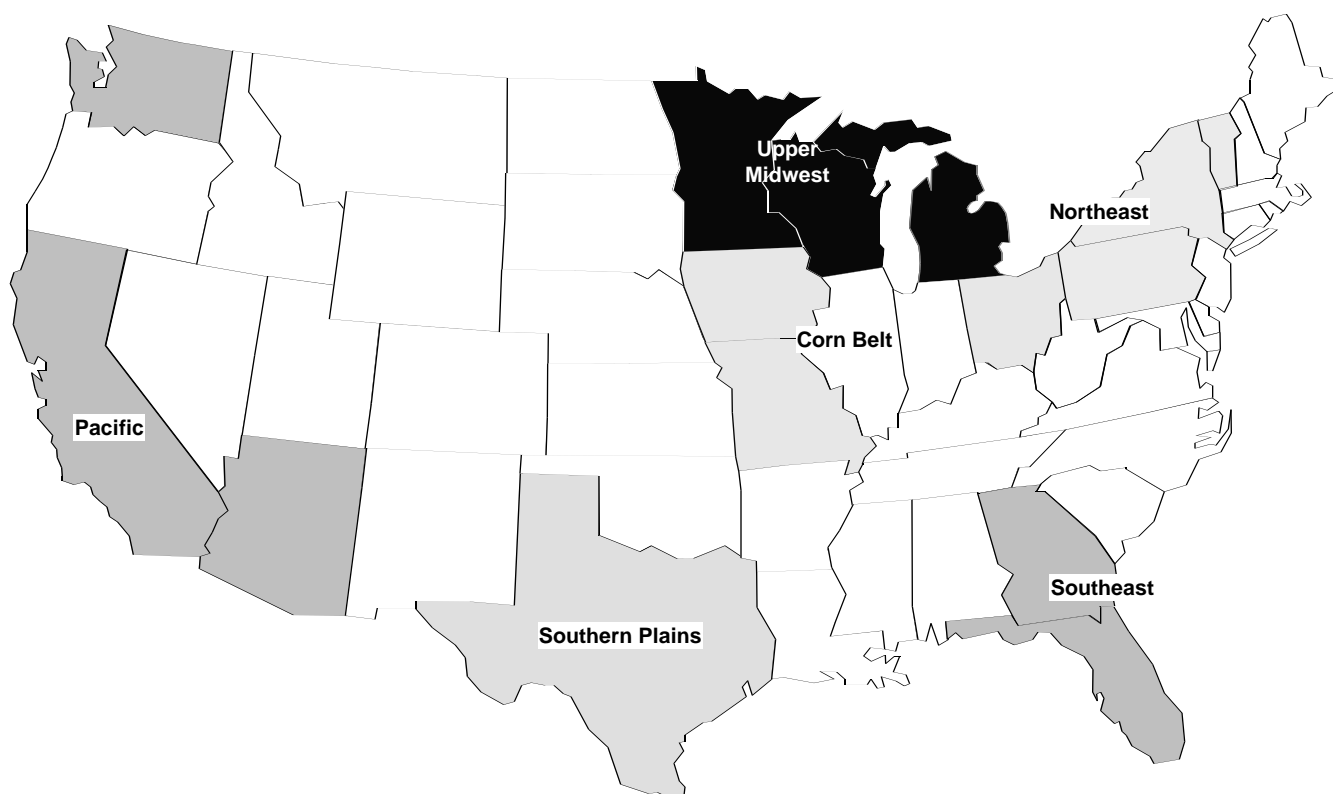
Cash and economic costs of producing 100 pounds (cwt) of milk in the United States in 1996 were up 6 and 3 percent, respectively, from 1995. Most of the increase was due to higher feed costs. Obtaining enough quality forage for the existing herd was a challenge over much of the country. Even concentrate availability became a factor. Very low grain stocks meant no guarantee of a steady flow of concentrate ration of a reasonably constant composition. Supplies of high-quality alfalfa were also very tight. Although 1995 alfalfa production was large, a relatively small share was dairy quality. By the spring of 1996, stocks of good forage were largely exhausted. Cool, wet weather over much of the country delayed hay and pasture development and slashed quality. Later cuttings also had widespread quality problems. High concentrate prices magnified the forage quality problems.

Nevertheless, higher milk prices in 1996 outpaced the increase in costs of grain and other concentrates. Higher milk prices helped boost 1996 returns to dairy farms, particularly for producers who grew their own feed grains or who priced their feed ahead. The U.S. gross value of production less cash expenses rose more than \$1 per cwt from 1995. While residual returns to management and risk remained negative, they also posted an improvement of more than \$1 from 1995.

Cash production costs varied by region. In 1996, the Southeast continued to see the highest cost, averaging \$14.92 per cwt of milk sold, while the Pacific region again saw the lowest costs, averaging \$11.20 per cwt. All six regions saw a substantial increase in feed costs from 1995 to 1996.

Residual returns to management and risk improved in all six regions. However, only the Pacific region's returns were positive.

Figure 8-13
Milk production regions



Notes: Shading and patterns indicate production regions where producers were surveyed in 1993 about production practices and costs of production. Production regions are defined for each crop based on common cultural practices.

Table 8-13A—Milk production cash costs and returns, 1995-96

Item	United States		Northeast		Southeast		Upper Midwest		Corn Belt		Southern Plains		Pacific	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
<i>Dollars per cwt</i>														
Gross value of production:														
Milk	12.80	14.78	13.26	15.19	14.94	17.41	12.83	14.74	12.91	14.88	13.00	15.10	11.91	13.89
Cattle	0.87	0.78	0.78	0.69	0.99	0.86	1.00	0.89	1.10	0.97	0.88	0.79	0.64	0.57
Other income ¹	0.60	0.61	0.50	0.51	0.49	0.50	0.76	0.77	0.51	0.52	0.41	0.40	0.55	0.57
Total, gross value of production	14.27	16.17	14.54	16.39	16.42	18.77	14.59	16.40	14.52	16.37	14.29	16.29	13.10	15.03
Cash expenses:														
Feed—														
Concentrates	3.51	4.09	3.48	4.04	5.26	5.89	3.53	4.19	3.77	4.47	4.59	5.86	2.89	3.13
Byproducts	0.21	0.21	0.04	0.04	0.46	0.45	0.11	0.11	0.24	0.25	0.18	0.19	0.43	0.43
Liquid whey	0.12	0.13	0.13	0.14	0.04	0.05	0.15	0.16	0.22	0.24	0.01	0.01	0.04	0.04
Hay	1.45	1.60	1.29	1.37	0.65	0.69	0.98	1.04	1.48	1.80	2.02	2.81	2.28	2.45
Silage	1.25	1.37	1.76	1.84	0.93	0.98	1.41	1.51	1.15	1.46	0.10	0.14	0.91	1.00
Pasture and other forage	0.12	0.13	0.03	0.03	0.07	0.06	0.13	0.16	0.11	0.13	0.07	0.08	0.19	0.20
Total, feed costs	6.66	7.53	6.73	7.46	7.41	8.12	6.31	7.17	6.97	8.35	6.97	9.09	6.74	7.25
Other—														
Hauling	0.46	0.44	0.75	0.68	0.96	0.96	0.26	0.25	0.43	0.43	0.61	0.59	0.41	0.39
Artificial insemination	0.15	0.14	0.21	0.20	0.12	0.12	0.16	0.15	0.12	0.12	0.05	0.05	0.12	0.11
Veterinary and medicine	0.38	0.36	0.49	0.44	0.49	0.49	0.44	0.43	0.40	0.40	0.20	0.19	0.21	0.20
Bedding and litter	0.24	0.23	0.38	0.37	0.01	0.00	0.32	0.31	0.32	0.32	0.00	0.00	0.05	0.05
Marketing	0.38	0.36	0.49	0.45	0.53	0.53	0.26	0.25	0.31	0.31	0.27	0.26	0.47	0.44
Custom services and supplies	0.43	0.42	0.60	0.54	0.65	0.65	0.34	0.34	0.38	0.38	0.32	0.31	0.42	0.40
Fuel, lube, and electricity	0.49	0.53	0.65	0.70	0.31	0.34	0.57	0.62	0.52	0.58	0.44	0.49	0.27	0.28
Machinery and building repairs	0.78	0.76	0.95	0.93	0.63	0.63	1.04	1.01	0.91	0.87	0.44	0.43	0.31	0.30
Hired labor	0.64	0.62	0.64	0.61	1.36	1.35	0.58	0.56	0.64	0.61	0.81	0.78	0.57	0.56
DHIA fees	0.08	0.07	0.11	0.10	0.05	0.05	0.07	0.07	0.07	0.07	0.05	0.05	0.07	0.07
Dairy assessment	0.16	0.03	0.16	0.03	0.16	0.03	0.16	0.03	0.16	0.03	0.16	0.03	0.16	0.03
Total, variable cash expenses	10.85	11.49	12.16	12.51	12.68	13.27	10.51	11.19	11.23	12.47	10.32	12.27	9.80	10.08
General farm overhead	0.54	0.53	0.55	0.53	0.66	0.63	0.67	0.65	0.59	0.56	0.47	0.45	0.34	0.34
Taxes and insurance	0.29	0.33	0.40	0.44	0.33	0.37	0.38	0.43	0.27	0.31	0.15	0.16	0.12	0.13
Interest	0.83	0.85	0.77	0.79	0.58	0.60	1.14	1.16	0.70	0.71	0.59	0.60	0.63	0.64
Total, fixed cash expenses	1.66	1.71	1.72	1.76	1.57	1.60	2.19	2.24	1.56	1.58	1.21	1.21	1.09	1.11
Total, cash expenses	12.51	13.20	13.88	14.27	14.25	14.87	12.70	13.43	12.79	14.05	11.53	13.48	10.89	11.19
Gross value of production less cash expenses	1.76	2.97	0.66	2.12	2.17	3.90	1.89	2.97	1.73	2.32	2.76	2.81	2.21	3.84

Table 8-13B—Milk production economic costs and returns, 1995-96

Item	United States		Northeast		Southeast		Upper Midwest		Corn Belt		Southern Plains		Pacific	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
<i>Dollars per cwt</i>														
Gross value of production:														
Milk	12.80	14.78	13.26	15.19	14.94	17.41	12.83	14.74	12.91	14.88	13.00	15.10	11.91	13.89
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Other income ¹	0.60	0.61	0.50	0.51	0.49	0.50	0.76	0.77	0.51	0.52	0.41	0.40	0.55	0.57
Total, gross value of production	14.27	16.17	14.54	16.39	16.42	18.77	14.59	16.40	14.52	16.37	14.29	16.29	13.10	15.03
Economic (full ownership) costs:														
Variable cash expenses	10.85	11.49	12.16	12.51	12.68	13.27	10.51	11.19	11.23	12.47	10.32	12.27	9.80	10.08
General farm overhead	0.54	0.53	0.55	0.53	0.66	0.63	0.67	0.65	0.59	0.56	0.47	0.45	0.34	0.34
Taxes and insurance	0.29	0.33	0.40	0.44	0.33	0.37	0.38	0.43	0.27	0.31	0.15	0.16	0.12	0.13
Capital replacement	2.07	2.01	2.09	2.02	2.56	2.54	2.41	2.34	2.18	2.07	2.19	2.10	1.42	1.40
Operating capital	0.10	0.10	0.12	0.11	0.12	0.12	0.10	0.10	0.11	0.11	0.10	0.10	0.09	0.08
Other nonland capital	0.94	0.87	0.91	0.83	1.66	1.55	1.08	0.99	0.95	0.85	0.96	0.87	0.65	0.61
Land	0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01	0.00	0.00	0.01	0.01
Unpaid labor	1.85	1.80	2.66	2.56	0.33	0.32	2.23	2.15	3.19	3.00	0.93	0.90	0.45	0.45
Total, economic (full ownership) costs	16.65	17.13	18.89	19.00	18.34	18.80	17.39	17.85	18.53	19.38	15.12	16.85	12.88	13.10
Residual returns to management and risk	-2.38	-0.96	-4.35	-2.61	-1.92	-0.03	-2.80	-1.45	-4.01	-3.01	-0.83	-0.56	0.22	1.93

¹Includes the dairy's share of receipts from cooperative patronage dividends, assessment refunds, renting or leasing of dairy animals, the estimated value of manure as a fertilizer, and insurance indemnity payments.

Source: Economic Research Service, U.S. Department of Agriculture.